

posted on NERC's website and reviewed in open session at the November 6, 2014 conference call of the NERC Finance and Audit Committee. The unaudited report was accepted by the NERC Board of Trustees at its meeting on November 13, 2014.

I. NOTICES AND COMMUNICATIONS

Notices and communications with respect to this filing may be addressed to:⁴

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*Persons to be included on the
Commission's official service list

⁴ Persons to be included on the Commission's service list are identified by an asterisk. NERC respectfully requests a waiver of Rule 203 of the Commission's regulations, 18 C.F.R. § 385.203 (2012), to allow the inclusion of more than two persons on the service list in this proceeding.

II. CONCLUSION

NERC respectfully requests that the Commission accept this filing as compliant with Section II.7(b)(i) of the Settlement Agreement and the Commission's January 16 Order in Docket No. FA11-21-000.

Respectfully submitted,

/s/ Meredith M. Jolivert

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*Counsel for North American Electric
Reliability Corporation*

Dated: November 14, 2014

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing document upon all parties listed on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 14th day of November, 2014.

/s/ Meredith M. Jolivert

Meredith M. Jolivert
*Counsel for North American
Electric Reliability Corporation*

ATTACHMENT

North American Electric Reliability Corporation- Review of September 30, 2014 Unaudited Results – Budget to Actual Variance Analysis

Summary of Results as of September 30, 2014

The Total Budget for expenses plus fixed asset purchases was under budget \$4.1M, 9.6%, through September 30, 2014, which is generally consistent with June 30th results, which were \$2.9M, 10.0%, under budget. With the exception of rent expense and professional services, all expense categories were under budget.

SEPTEMBER YTD ACTUAL VERSUS BUDGET BY CATEGORY COMPARED TO JUNE YTD

	As of September 30, 2014				Results through June 30, 2014		
	2014 YTD Actual	2014 YTD Budget	2014 YTD Variance Over/(Under)	%	Variance Over/(Under)		Change in Variance Compare September to June
TOTAL FUNDING	40,309,534	40,326,786	(17,253)	0.0%	(83,510)	-0.3%	66,258
<u>BUDGET - EXPENSES and FIXED ASSETS</u>							
PERSONNEL EXPENSES	24,754,205	25,675,186	(920,983)	-3.6%	(445,147)	-2.6%	(475,836)
MEETINGS, TRAVEL and CONFERENCE CALLS	2,666,057	2,792,895	(126,839)	-4.5%	(114,860)	-6.1%	(11,979)
CONSULTANTS and CONTRACTS	4,226,724	5,431,535	(1,204,811)	-22.2%	(994,544)	-26.8%	(210,267)
RENT	1,978,560	1,962,974	15,586	0.8%	593	0.0%	14,993
OFFICE COSTS, PROFESSIONAL SERVICES and MISCELLANEOUS	4,398,026	4,337,865	60,161	1.4%	(79,932)	-2.7%	140,093
Other Non-Operating Expenses	84,770	108,000	(23,230)	-21.5%	(57,482)	-79.8%	34,252
FIXED ASSET PURCHASES (excludes the credit for depreciation)	459,647	2,338,343	(1,878,695)	-80.3%	(1,184,078)	-76.0%	(694,617)
TOTAL BUDGET	38,567,989	42,646,798	(4,078,811)	-9.6%	(2,875,449)	-10.0%	(1,203,362)
FTEs	179.16	189.53	(10.37)	-5.5%	(12.17)	-6.4%	1.80

As reflected in the following table, we project to be approximately \$2.4M under budget at the end of the year, compared to the June 30, 2014 year-end projection of \$944.7k under budget, which was utilized in preparation the final 2015 business plan and budget. The change in the year-end projection is primarily due to: (i) lower projected personnel expenses as a result of staff vacancies and turnover; (ii) lower projected contract and consulting expenses due to reductions in the cost of various IT projects and outside consulting support for internal controls and risk management; and (iii) lower fixed asset expenditures for software application development. Significant contract and consultant expenses projected for the fourth quarter include: (i) \$150k for FAC3 and \$230k for study of the reliability effects of GMD in RAPA; (ii) \$135k for SOCCED database; (iii) \$80k for a survey assessing ERO effectiveness; and (iv)

approximately \$618k for various projects in IT as further described below. The projection also reflects approximately \$1.4M in fixed assets costs to complete or begin ERO Enterprise projects and for NERC IT infrastructure investments. The year end projection does not include approximately \$285k in costs to make various improvements to the company’s office space in Atlanta which are required to accommodate existing and projected staff. Further information regarding these improvement costs is included under the discussion below related to fixed asset purchases. These costs were not anticipated at the time the 2014 business plan and budget was prepared.

2014 YEAR-END PROJECTION VERSUS BUDGET BY CATEGORY

	As of September 30, 2014				As of June 30, 2014	
	2014 Projection	2014 Annual Budget	2014 Projected Variance from Budget Over(Under)	%	2014 Projected Variance from Budget as of June 30, 2014	Change in Projected Variance
TOTAL FUNDING	53,586,819	53,735,382	(148,563)	-0.3%	(132,500)	(16,063)
BUDGET - EXPENSES and FIXED ASSETS						
PERSONNEL EXPENSES	32,974,998	34,059,655	(1,084,657)	-3.2%	(270,107)	(814,550)
MEETINGS, TRAVEL and CONFERENCE CALLS	3,524,929	3,789,525	(264,596)	-7.0%	(325,079)	60,483
CONSULTANTS and CONTRACTS	7,100,985	6,828,973	272,012	4.0%	687,146	(415,134)
RENT	2,720,299	2,617,299	103,000	3.9%	33,000	70,000
OFFICE COSTS, PROFESSIONAL SERVICES and MISCELLANEOUS	5,760,631	5,832,854	(72,223)	-1.2%	(99,467)	27,244
Other Non-Operating Expenses	95,061	144,000	(48,939)	-34.0%	(64,633)	15,693
FIXED ASSET PURCHASES (excludes the credit for depreciation)	1,805,558	3,117,790	(1,312,232)	-42.1%	(905,593)	(406,639)
TOTAL BUDGET	53,982,460	56,390,096	(2,407,636)	-4.3%	(944,733)	(1,462,902)
FTEs	179.87	189.53	(9.66)	-5.1%	(4.02)	(5.64)

Year-to-date actual results and the 2014 year end projection reflected in the tables above do not include any expenses or funding related to CRISP. Further information regarding CRISP contract, budget and funding status is set forth in a separate section below.

Actual to Budget Variances for Expenses and Fixed Assets by Category

Personnel expenses were under budget \$921.0k, 3.6%, under budget through September 30th and are projected to be \$1.1M, 3.2%, under budget at year end. Total FTEs were under budget 10.4, 5.5%, as of September 30th and are projected to be 9.7, 5.1%, under budget at year end.

- Salaries expense, which includes salaries, (\$663.0k under budget), incentive compensation, (\$133.2k over budget), employment agency fees, (\$130.9k over budget), and temporary office services, (\$22.9k over budget), was \$376.0, 1.9%, under budget as of September 30th. Salaries expense is projected to be \$475.8k, 1.8%, under budget at year end due to lower than budgeted salaries as a result of staff vacancies, offset by: (i) higher than budgeted incentive compensation based upon the 3-year average of 18.4%; (ii) higher than budgeted employment agency fees; and (iii) higher than budgeted temporary office services which have been utilized during periods of staff vacancies and to support NERC's current operations.
- Payroll taxes were \$49.6k, 3.7% over budget as of September 30th and are projected to be over budget \$133.1k, 8.5% at year end due to an increase in the maximum taxable earnings cap which is higher than the assumption in the budget.
- Benefits were \$229.7k, 9.0% under budget as of September 30th and are projected to be \$410.0k, 12.1%, under budget at year end due to open positions, lower than budgeted renewal rates for employee health benefits and lower than budgeted relocation expense. Education benefits were over budget \$43.1k through September 30th, and are projected to be equal budget at year end. Workers compensation expense is projected to be \$11.6k over budget at year end based upon the final audit of the July 1, 2013 through June 30th.
- Retirement costs were \$364.9k, 17.2%, under budget as of September 30th and are projected to be \$332.0k, 11.5%, under budget at year end due to having fewer FTEs on staff, delayed eligibility related to timing of hiring and attrition and due to forfeiture of unvested employer contributions.

Meetings, Travel, and Conferencing expenses were collectively under budget \$126.8k, 4.5%, through September 30th due to lower than budgeted travel and meeting expenses, offset by higher than budgeted conferencing expenses. Meetings and workshop expenses were \$18.9k, 2.6%, under budget due to lower than budgeted workshop expenses related to the elimination of NERC funding of NASPI workshops, offset by higher than budgeted meeting expenses for the CIP V5 and physical security standards. Travel expenses were \$112.1k, 6.2%, under budget through September 30th, and are projected to be \$307.1k, 12.7%, under budget at year end based upon the current spend trend compared to the actual monthly spending trend in 2013.

Consultant and Contract expenses were under budget \$1.2M, 22.2%, through September 30th and are projected to be over budget \$272.0k, 4.0%, at year end. As further explained below, contracts for a number of projects were executed late in the third quarter and work has begun, but invoices have not been received.

As of September 30, 2014

	Actual	Budget	Over(Under)	2014 Projection	2014 Annual Budget	Variance from Budget Over(Under)
CONSULTANTS and CONTRACTS						
REGIONAL ENTITY OVERSIGHT AND ASSURANCE	406,715	362,500	44,215	450,543	400,000	50,543
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	278,686	513,564	(234,878)	793,767	638,085	155,682
RELIABILITY RISK MANAGEMENT	1,230,403	1,081,640	148,764	1,550,228	1,289,108	261,120
CRITICAL INFRASTRUCTURE DEPARTMENT	98,904	142,501	(43,597)	249,612	190,000	59,612
ES-ISAC	334,087	671,050	(336,963)	681,300	786,450	(105,150)
CRISP	-	-	-	-	-	-
TRAINING, EDUCATION and OPERATOR CERTIFICATION	241,711	662,498	(420,786)	558,745	848,830	(290,085)
GENERAL and ADMINISTRATIVE	-	-	-	80,000	-	80,000
POLICY and EXTERNAL AFFAIRS	8,890	56,250	(47,360)	15,000	75,000	(60,000)
INFORMATION TECHNOLOGY	1,309,203	1,458,033	(148,830)	2,174,143	1,944,000	230,143
HUMAN RESOURCES	210,566	198,500	12,066	322,000	257,500	64,500
FINANCE and ACCOUNTING	107,559	285,000	(177,441)	225,647	400,000	(174,353)
TOTAL CONTRACTS and CONSULTANTS	4,226,724	5,431,535	(1,204,811)	7,100,985	6,828,973	272,012

- Regional Entity Oversight and Assurance – Over budget \$44.2k through September 30th and projected to be \$50.5k over budget at year end for consulting support to review RAI pilot programs and development of associated internal control evaluation and testing processes.
- Reliability Assessments and Performance Analysis – Under budget \$234.9 through September 30th due to delays in execution of the contracts for FAC 3 vegetation management project and to study the reliability effects of GMD. The \$155.7k over budget 2014 year end projection is primarily related to the FAC 3 vegetation management project. The contract for FAC 3 was executed in August and was identified as a use of Known Contingency Reserves in the 2014 Business Plan and Budget.
- Reliability Risk Management – \$148.8k over budget primarily due to higher than budgeted expenses for NERCnet, offset by lower than budgeted expenses for SAFNR, which is due to timing of actual expenses versus the allocation of the budget for the project. The \$261.1k year end over budget projection is due to higher than budgeted expenses for NERCnet and higher than budgeted expenses for the current secure alert system which is still being used pending transition to a new system.
- Critical Infrastructure Department – Under budget \$43.6k through September 30th due to timing. The \$59.6k over budget year end projection is for contract support to begin the planning process in 2014 for GridEx III, which will take place in 2015.
- Training, Education and Operator Certification – Under budget \$420.8k through September 30th and projected to be \$290.1k under budget at year end due to: (i) timing and projected lower than budgeted expenses related to the system operator database improvement project and examination development project; (ii) lower than budgeted system operator testing expenses due to a new vendor contract that was negotiated after the 2014 budget was developed; and (iii) lower than budgeted costs for industry and staff training.

- General and Administrative – The \$80k over budget projection is related to the survey to assess the effectiveness of the ERO.
- Policy and External Affairs – Under budget \$47.4k through September 30th and projected to be \$60.0k under budget at year end due to a reduction in the need for outside consulting to support external affairs as a result of these duties being managed by NERC staff.
- Information Technology – Under budget \$148.8k through September 30th and projected to be \$230.1k over budget at year end. The plan developed by the IT department for completion or initiation of ERO Enterprise projects during the remainder of 2014 and included in the year end projection includes consulting support for: (i) \$209.0k for review and development of IT architecture and enterprise application development strategy; (ii) \$120.0k for development of an enterprise reporting tool for GADS/TADS/DADS data; and (iii) \$88.6k for applications support for BESnet, SBS and the ERO portal with a new vendor. The spend plan for the remainder of 2014 for NERC infrastructure projects includes contract and consulting expenses for: (i) \$208.0k for implementation of a document management system; and (ii) \$45.0k for disaster recovery hardware and software, installation of new microphones in the Atlanta office large conference rooms and installation of new wireless network equipment. The projected over budget variance will be offset by lower than budgeted fixed asset costs for infrastructure equipment.
- Human Resources – Over budget \$12.1k through September 30th and projected to be \$64.5k over budget at year end due primarily to higher than budgeted expenses for executive training and development.
- Finance and Accounting – Under budget \$177.4k through September 30th and projected to be \$174.4k under budget at year end due to lower than budgeted consulting support for internal controls and risk management.

Rent expense is projected to be \$103.0k, 3.9%, over budget at year end due to an approximate reduction of \$24.5k in sublease revenue from NERC's former Washington, DC office in connection with negotiation and execution of a sublease amendment as a result of the subtenant's bankruptcy reorganization and due to an \$80.0k increase in property taxes in Atlanta as a result of an increase in the tax assessment on the building by Fulton County based on a recent property tax revaluation. With respect to the sublease agreement, the company received an upfront payment in connection with the execution of its current lease space in Washington, D.C. to offset potential liabilities associated with the sublease. This upfront payment is included in the company's working capital reserves and is being amortized over the term of the lease and is sufficient to offset the reduction in sublease revenue resulting from the subtenant bankruptcy

Office Costs, Professional Services and Miscellaneous were collectively \$60.2k, 1.4%, over budget through September 30th, and are projected to be \$72.2k, 1.2%, under budget at year end.

- Office costs were \$98.9k, 3.8%, under budget through September 30th and are projected to be \$64.3k, 1.8%, under budget at year end primarily due to lower than budgeted costs for maintenance and service agreements.
- Professional services expenses were \$179.0k, 10.7%, over budget through September 30th due to: (i) higher outside legal fees related to closing on the capital financing loan and preparation of the special assessment filing with FERC on behalf of Peak Reliability; (ii) higher trustee search fees, which were budgeted to occur in the fourth quarter, but were incurred in the third quarter; and (iii) higher than budgeted accounting and auditing fees related to review of NERC's retirement plans. Professional services are projected to be approximately equal to budget at year end. \$171.6k in outside legal expense incurred to date related to development of CRISP contracts is not included in 2014 YTD Actual or the 2014 Projection for Office Costs, Professional Services and Miscellaneous since these costs will be funded by CRISP participants.
- Miscellaneous expenses were \$19.9k, 72.8%, under budget as of September 30th and are projected to be approximately equal to budget at year end.

Other Non-Operating Expenses were under budget \$23.2k, 21.5%, through September 30th due to lower than budgeted interest expense associated with the capital financing loan. Interest expense is lower than budget due to a lower than budgeted interest rate and a delay in closing the capital financing program loan. The actual interest rate on the loan, which closed in January, 2014 instead of fourth quarter, 2013, is 2.9%. The 2014 budget was developed using an interest rate of 3.5%. Other non-operating expenses are projected to be \$48.9k, 34.0%, under budget at year end due to the reduction in interest expense.

Fixed Asset Purchases, which excludes the credit for depreciation, were \$1.9M, 80.3%, under budget as of September 30th and are projected to be \$1.3M, 42.1%, under budget at year end. \$209.0k in fixed asset purchases are being used to offset the use of operating reserves to fund Enterprise IT strategy and application consulting support noted above. The plan developed by the IT department for completion or initiation of ERO Enterprise projects during the remainder of 2014 and included in the year end projection includes: (i) \$162.5k completion of the Standards Balloting System; (ii) \$87.6k to begin the RADS and Event Analysis projects; and (iii) \$549.4k for hardware and software licenses for implementation of the xRM Platform. The spend plan for the remainder of 2014 for NERC infrastructure projects includes \$350k for disaster recovery hardware and software, \$100k for a new microphone system for the Atlanta conference rooms, and approximately \$150k for other network infrastructure requirements.

In addition to the forgoing, management is recommending that certain improvements be undertaken to the Atlanta office space to better accommodate current budgeted staffing levels, as well as allow personnel within each department to be located in close proximity to their co-workers. An architect was retained to prepare drawings and estimate of the costs to undertake these improvements. The estimate is approximately \$285k and management is separately requesting the committee's authorization to proceed with these improvements.

OPERATING RESERVE ANALYSIS

As of September 30, 2014, the available balance in working capital and operating reserves was \$4.75M, after the adjustment of reserves for future liabilities. The total balance in working capital and operating reserves, including the reserves for future liabilities was \$8.2M¹. The current balances in the Known Contingency Reserve, Unknown Contingency Reserve and the System Operator Reserves as of September 30, 2014, were \$1.0M, \$2.35M, and \$1.4M, respectively. After taking into consideration the use of reserves which are restricted for future liabilities associated with NERC’s lease obligations, the balance in available operating reserves was approximately \$2.6M higher than budget.

OPERATING RESERVE ANALYSIS - as of September 30, 2014						
				2014 Current Reserve Balances		
	2014 Actual	2014 Budget*	Variance - Actual to Budget	Known Contingency Reserves	Unknown Contingency Reserves	System Operator Reserves CRISP
WORKING CAPITAL and OPERATING RESERVES						
Balance as of 01/01/2014	6,264,672	8,217,862	(1,953,190)			
Less: Adjustment for future liabilities	(3,817,478)	(3,788,645)	(28,833)			
Beginning Available Operating Reserves	2,447,194	4,429,217	(1,982,023)	1,000,000	(69,672)	1,516,866
Proceeds from Financing Activities (non-current portion only)	562,222		562,222		562,222	
Change in Reserves from Current Year Operations	1,741,545	(2,320,011)	4,061,558	-	1,857,482	(115,937)
Other adjustments to reserves**	2,648		2,648		2,648	
Available Reserve Balance	4,753,609	2,109,206	2,644,405	1,000,000	2,352,680	1,400,929

*The 2014 budget includes a \$1.2M reduction in Known and Unknown reserves and a \$438.3k planned reduction in the System Operator Reserves, for a total budgeted reduction in reserves of \$1,660,724.

**Represents transactions recorded only on the Statement of Financial Position (balance sheet) and do not impact the Statement of Activities (income statement)

As of September 30th, the projected use of Unknown Contingency Reserves was \$894.0k: (i) \$48.5k for RAI contract support to develop the internal control evaluation and testing processes; (ii) \$48.6k for data modeling and change orders related to generation databases; (iii) \$25.1k for preliminary work on the development of E-GAR, which is a replacement for pcGAR; (iv) \$59.6k for a cyber asset survey and to begin preparations for GridEx III in 2015; (v) \$64.5k for executive coaching and HR administrative support; (vi) \$80.0k for ERO effectiveness assessment; and (vii) \$567.7k for IT architecture and strategy consulting, compliance database maintenance, and various IT infrastructure projects, including disaster recovery and network simplification, as explained above. Management projects to use \$150k of Known Contingency Reserves for the FAC3 vegetation research project.

Based upon the revised 2014 spend plan for ERO Enterprise applications and NERC IT infrastructure projects included in the 2014 year end projection, the projected 2014 draw on the capital financing loan

¹ Refer to the Statement of Financial Position on page 10.

in 2014 for completed projects has been reduced from the budgeted amount of \$1.416M to \$1.28M. The \$1.28M includes \$379.2k for completion of Standards Balloting System, \$549.4k for hardware and software to implement the xRM platform, and \$350.0k for disaster recovery hardware. With this revision to the draw on the capital financing loan and based upon the current 2014 projection, the projected year end balances in the Known Contingency Reserve, Unknown Contingency Reserve and the System Operator Reserves are \$850.0k, \$1.37M, and \$1.14M, respectively, for a total of approximately \$3.4M, which is approximately \$1.36M more than assumed for purposes of NERC’s 2015 business plan and budget before taking into account any expenditure of reserves for the Atlanta office space improvements noted above. The projected 2014 year end balances in NERC’s 2015 Business Plan and Budget in the Known Contingency Reserve, Unknown Contingency Reserve and the System Operator Reserves were \$850.0k, \$159.1k, and \$996.4k, respectively, for a total of approximately \$2.0M.

OPERATING RESERVE ANALYSIS - as of September 30, 2014				2014 Projected Year End Reserve Balances		
	2014 Projection as of 9/30/2014	2014 Budget*	Variance - Projection to Budget	Known Contingency Reserves	Unknown Contingency Reserves	System Operator Reserves
WORKING CAPITAL and OPERATING RESERVES						
Balance as of 01/01/2014	6,264,672	8,217,862	(1,953,190)			
Less: Adjustment for future liabilities	(3,817,478)	(3,788,645)	(28,833)			
Beginning Available Operating Reserves	2,447,194	4,429,217	(1,982,023)	1,000,000	(69,672)	1,516,866
Proceeds from Financing Activities (non-current portion only)	1,309,406	943,993	365,412		1,309,406	
Change in Reserves from Current Year Operations	(395,641)	(2,654,714)	2,259,073	(150,000)	133,131	(378,773)
Other adjustments to reserves**		49,999	(49,999)		-	
Available Reserve Balance	3,360,958	2,768,494	592,463	850,000	1,372,865	1,138,093

*The 2014 budget includes a \$1.2M reduction in Known and Unknown reserves and a \$438.3k planned reduction in the System Operator Reserves, for a total budgeted reduction in reserves of \$1,660,724.

**Represents transactions recorded only on the Statement of Financial Position (balance sheet) and do not impact the Statement of Activities (income statement)

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
Statement of Activities, Fixed Assets and Change in Working Capital
(Unaudited, without CRISP)
For the period ended 09/30/2014

	2014	2014	2014 YTD		2014	2014	2014 Projected	
	YTD Actual	YTD Budget	Variance	%	Projection	Annual Budget	Variance from Budget	%
			Over(Under)				Over(Under)	
Funding								
Assessments	38,551,036	38,551,037	(0)		51,401,382	51,401,382	-	
Penalties	290,000	290,000	(0)		290,000	290,000	-	
Third-Party Funding (CRISP)	-	-	-		-	-	-	
Testing	1,214,814	1,215,000	(186)		1,620,000	1,620,000	-	
Services & Software	55,000	37,500	17,500		75,000	50,000	25,000	
Workshop Fees	196,852	218,250	(21,398)		197,837	354,000	(156,163)	
Interest	1,773	15,000	(13,227)		2,500	20,000	(17,500)	
Miscellaneous	58	-	58		100	-	100	
Total Funding	40,309,534	40,326,786	(17,253)	0.0%	53,586,819	53,735,382	(148,563)	-0.3%
Expenses								
Personnel Expenses								
Salaries	19,287,903	19,663,933	(376,030)		25,742,797	26,218,572	(475,775)	
Payroll Taxes	1,399,434	1,349,816	49,619		1,704,050	1,570,954	133,096	
Employee Benefits	2,309,779	2,539,431	(229,652)		2,975,925	3,385,917	(409,992)	
Savings & Retirement	1,757,088	2,122,009	(364,920)		2,552,226	2,884,212	(331,986)	
Total Personnel Expenses	24,754,205	25,675,186	(920,983)	-3.6%	32,974,998	34,059,655	(1,084,657)	-3.2%
Meeting Expenses								
Meetings	720,955	739,864	(18,909)		1,104,035	1,052,150	51,885	
Travel	1,702,576	1,814,644	(112,068)		2,112,400	2,419,525	(307,125)	
Conference Calls	242,525	238,387	4,138		308,494	317,850	(9,356)	
Total Meeting Expenses	2,666,057	2,792,895	(126,839)	-4.5%	3,524,929	3,789,525	(264,596)	-7.0%
Operating Expenses								
Consultants and Contracts	4,226,724	5,431,535	(1,204,811)		7,100,985	6,828,973	272,012	
Rent & Improvements	1,978,560	1,962,974	15,586		2,720,299	2,617,299	103,000	
Office Costs	2,535,167	2,634,022	(98,855)		3,441,736	3,506,074	(64,338)	
Professional Services	1,855,425	1,676,468	178,957		2,284,745	2,290,280	(5,535)	
Miscellaneous	7,433	27,375	(19,942)		34,150	36,500	(2,350)	
Depreciation	1,367,172	1,749,755	(382,583)		1,790,700	2,333,007	(542,307)	
Total Operating Expenses	11,970,482	13,482,129	(1,511,647)	-11.2%	17,372,615	17,612,133	(239,518)	-1.4%
Other Non-Operating Expenses								
	84,770	108,000	(23,230)	-21.5%	95,061	144,000	(48,939)	-34.0%
Total Expenses	39,475,514	42,058,210	(2,582,699)	-6.1%	53,967,602	55,605,313	(1,637,711)	-2.9%
Net Change in Assets	834,020	(1,731,424)	2,565,446	-148.2%	(380,783)	(1,869,931)	1,489,148	-79.6%
Fixed Assets								
Depreciation	(1,367,172)	(1,749,755)	382,583		(1,790,700)	(2,333,007)	542,307	
Computer & Software	293,020	2,178,593	(1,885,572)		1,522,674	2,904,790	(1,382,116)	
Furniture & Fixtures	-	-	-		-	-	-	
Equipment	166,627	159,750	6,877		282,884	213,000	69,884	
Leasehold Improvements	-	-	-		-	-	-	
Incr(Dec) in Fixed Assets	(907,525)	588,587	(1,496,112)	-254.2%	14,858	784,783	(769,925)	-98.1%
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	38,567,989	42,646,800	(4,078,811)	-9.6%	53,982,460	56,390,096	(2,407,636)	-4.3%
FTE's	179.16	189.53	(10.37)	-5.5%	179.87	189.53	(9.66)	-5.1%

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
Statement of Financial Position
(Unaudited)
For the period ended 09/30/2014

	9/30/2014	12/31/2013	Available Operating Reserves	
			9/30/2014	12/31/2013
ASSETS				
Cash	35,262,617	26,182,060	35,262,617	26,182,060
Accounts receivable, net of allowance for uncollectible accounts of 0 and 62,573 in 2014 and 2013	14,884,169	3,353,895	14,884,169	3,353,895
Prepaid expenses and other current assets	884,384	869,876	884,384	869,876
Security deposit	99,136	99,136		
Cash value of insurance policies	-	-		
Employee Fiduciary - 457b	320,660	320,660		
Property and equipment	4,737,591	5,645,116		
Total Assets	56,188,557	36,470,743		
LIABILITIES AND NET ASSETS				
Liabilities				
Current Portion				
Accounts payable and accrued expenses (includes vacation accrual)	2,975,649	2,917,303	(2,975,649)	(2,917,303)
Accrued incentive compensation	2,968,310	4,025,979	(2,968,310)	(4,025,979)
Deferred rent-current	231,501	182,421	(231,501)	(182,421)
Deferred compensation - current	14,257	20,386	(14,257)	(20,386)
Capital lease obligations - current	47,108	47,108	(47,108)	(47,108)
Accrued retirement liabilities	1,453,739	1,788,624	(1,453,739)	(1,788,624)
Debt service - current portion	421,667	-	(421,667)	-
Deferred income	12,917,692	5,287,044	(12,917,692)	(5,287,044)
Deferred revenue - penalties	0	-	(0)	-
Deferred revenue - other	14,000	-	(14,000)	-
Regional assessments	19,115,051	9,427,293	(19,115,051)	(9,427,293)
Total Current Portion	40,158,974	23,696,159		
Long-Term Portion				
Deferred compensation ¹	600,162	597,514		
Long-Term Debt	562,222	-		
Deferred Rent-non-current	3,635,209	3,817,478	(3,635,209)	(3,817,478)
Capital lease obligations - non-current	-	-		
Total Long-Term Portion	4,797,594	4,414,992		
Total Liabilities	44,956,567	28,111,151		
Net Assets - unrestricted	8,576,990	7,914,592		
Net Assets - restricted	2,655,000	445,000	(2,655,000)	(445,000)
Total Liabilities and Net Assets	56,188,557	36,470,743	4,581,986	2,447,194

¹Includes 457b liability, life insurance for former executive, and retiree medical

Working Capital and Operating Reserves	8,217,196	6,264,672
Less: Restriction for future liabilities	(3,635,209)	(3,817,478)

Available Working Capital and Operating Reserves* 4,581,986 2,447,194

*The Available Working Capital and Operating Reserve balance as of September 30, 2014 per this report includes the expenditure of \$172.6k in legal fees associated with CRISP that will be reimbursed by CRISP participants.

Financial Covenants	
1 - WC & OR Balance to Debt Service Ratio > 1.2 to 1.0 (Working Capital / Debt Service)	19.49
2 - Liquidity to Debt Service Ratio > 1.5 to 1.0 (= Cash - Regional Assessments - Restricted Net Assets)	32.00

CRISP

Significant progress has been made on CRISP. All legal documentation has been finalized. 2014 and 2015 budgets and funding mechanics have also been finalized with PNNL and participating utilities. NERC and an initial group of 15 utilities have signed the Master Agreement (MA) and associated statements of work and another 6 utilities have indicated an intent to sign in the future. Management expects this number may grow now that the program is officially launched.

A separate bank account has been established to segregate CRISP funds and track funding by utility participant. We are in the process of collecting 2014 funding requirements from participating utilities. 2015 funding will be in two installments, with the first installment due in early January, 2015. The second installment will be due within 30 days after NERC provides a reconciliation of actual to budgeted costs, which is anticipated to be on or about March 15, 2015.

The 2014 CRISP budget is sufficient to fund 100% of the 2014 CRISP program costs, inclusive of PNNL costs. An overall not to exceed budget, as well as a not to exceed budget by participating utility, has been agreed to with PNNL and each participating utility. Consistent with the NERC Board's authorizing resolution, 2014 utility funding was established in a sufficient amount to avoid the use of existing reserves.

The 2015 budget reflects final cost reduction negotiations with PNNL, as well as the allocation of direct funding of program startup costs by participating utility in 2014. The final 2015 budget, inclusive of PNNL costs and the MSA defense fund, has been reduced from approximately \$9.8M to approximately \$5.9M. This is in large part due to the inclusion of the funding of PNNL startup capital costs and certain other startup expenses in the 2014 budget, which are thus not required in the 2015 budget. The 2014 budget, covering the period from October 1, 2014 thru December 31, 2014, is approximately \$4.9M. The aggregate direct utility funding for 2014 and 2015 will be approximately \$10.3M. The final total 2014 and 2015 CRISP budgets are set forth in Attachment A. NERC's internal 2015 ES-ISAC department budget, which is exclusive of PNNL subcontract costs and other costs funded directly by utility participants, is consistent with the internal ES-ISAC budget included in the company's 2015 business plan and budget and utilized to determine the portion of the 2015 CRISP budget funded through assessments.